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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HUMAN SERVICES
LANSING



ISMAEL AHMED
DIRECTOR

May 15, 2008

The Honorable Bill Hardiman, Chair
Senate Appropriations Subcommittee on DHS
Michigan State Senate
Lansing, Michigan 48933

The Honorable Dudley Spade, Chair
House Appropriations Subcommittee on DHS
Michigan House of Representatives
Lansing, Michigan 48933

Dear Senator Hardiman and Representative Spade:

Section 657(7) of 2007 Public Act No. 131 (Enrolled Senate Bill 232) requires the Department of Human Services (DHS) to audit the expenditures of the before- and after-school program and report the results to the legislature. The Office of Monitoring and Internal Controls in DHS has completed its work and the audit report is attached.

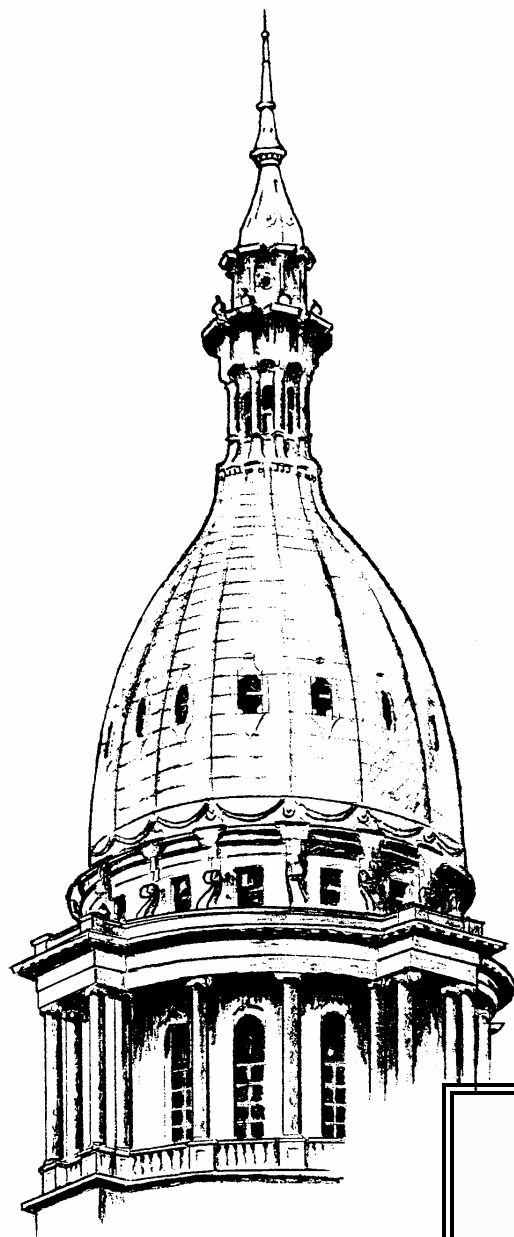
If you have any questions about the attached material, please contact John Sorbet, chief administrative officer, at 373-7787.

Sincerely,

Ismael Ahmed

Attachments

C: Senate and House Appropriations Subcommittee on DHS
Senate and House Fiscal Agencies
Senate and House Policy Offices
State Budget Office



Michigan Department of Human Services

Office of Monitoring and Internal Controls

BEFORE AND AFTER SCHOOL PROGRAM

Audit #2008-081

October 1, 2006 – September 30, 2007

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INTRODUCTION

In fiscal year 2006, the Michigan Department of Human Services (DHS) contracted with 16 private, nonprofit agencies to provide Before and After School (BA) programs to children in kindergarten through ninth grade who were eligible for Temporary Assistance to Needy Families (TANF) funding. Agencies were reimbursed for their actual costs incurred through the submission of monthly billings. DHS made total payments to these 16 agencies of \$3,813,560.82.

The BA contracts required agencies to provide academic development, substance abuse prevention, education, tutoring, parent and student social activities. The agencies are also required to provide events, student clubs, leadership development, recreational activities, science and nature study, anger management and other programs. The BA contracts covered the period October 1, 2006 through September 30, 2007.

SCOPE

The Office of Monitoring and Internal Controls selected three agencies that administered the BA program and conducted an on-site audit of each agency. The audit included reviewing each agency's accounting records and other financial documentation to determine if the amounts billed to DHS had adequate support. We also performed tests to determine if the costs charged were allowable according to the terms of their contract with DHS. We reviewed each agency's client eligibility documentation to ensure that only the costs of serving eligible clients were charged to the DHS contract. The total amount awarded by DHS to the three audited agencies for administering the BA program was \$1,134,956.73. The audit covered the period October 1, 2006 through September 30, 2007.

EXECUTIVE SUMMARY

Based on the results of the audits performed, we concluded that some costs billed by the agencies were unallowable according to the contract. We found instances where agencies did not have documentation to support some of the costs charged. We also found cases where agencies billed for costs that were not included in the contract budget. These costs were incurred when administering the BA programs; however, the agencies did not anticipate these costs and did not include them in their budgets prior to entering into the DHS contracts. One agency did not include the required language in their subcontracts with third parties, and two agencies did not maintain client eligibility documentation in a manner required by their contracts.

A more detailed summary of our findings and recommendations from our audits of the three agencies follows.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Costs not Allowable or not Supported by Accounting Records

1. Two agencies billed for costs that were disallowed because they were either not allowable according to the terms of the contract or not supported by each agency's accounting records and other documentation. The total billed by the two agencies for these items was \$98,228.83.

We recommended that Field Operations Administration (FOA) recoup \$98,228.83 from the agencies.

Improper Human Service Subcontracts

2. One agency did not include the required DHS language in their subcontracts with human service providers. The language pertains to the confidentiality and performance requirements related to DHS funded clients. The subcontractor is required to protect such confidential client information from unauthorized use or disclosure.

We recommended that FOA ensure that agencies that operate the BA program include language in their subcontracts with human service providers that protects the confidentiality of DHS clients and establishes performance requirements.

Improper Maintenance of Documentation of Client Eligibility

3. Two of the agencies did not maintain documentation in a way that clearly identified clients who were eligible to be charged to the DHS contracts. Documentation proving eligibility was not always in the case files.

We recommended that FOA ensure that agencies maintain records in a manner that clearly identifies client eligibility.